BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Wisconsin Electric Power Company and Wisconsin Gas LLC for Authority to Adjust Electric, Steam, and Natural Gas Rates – Test Year 2020	Docket No. 5-UR-109

DIRECT TESTIMONY OF SCOTT LAUBER

I. Introduction

Q. Please state your name, business address and titles.

A. My name is Scott Lauber. My business address is 231 West Michigan Street, Milwaukee, Wisconsin 53203. I am Senior Executive Vice President, Chief Financial Officer, and Treasurer of WEC Energy Group ("WEC"). I am also a member of the Office of the Chair for WEC. WEC is the parent company of Wisconsin Electric Power Company ("Wisconsin Electric") and Wisconsin Gas LLC ("Wisconsin Gas") (collectively, "Applicants").

Q. Please describe your educational background and business experience.

A. I have a Bachelors of Business Administration in Accounting from the University of Wisconsin−Whitewater. I am also a Certified Public Accountant. Prior to joining WEC, I worked as a staff auditor at Arthur Anderson.

I have held several roles in the 29 years since I joined WEC, most in the Finance and Accounting Department. Most recently, I served as Executive Vice President and Chief Financial Officer of WEC from April 2016 to February of this year. Since joining Wisconsin Energy Corporation in 1990, I have held positions of increasing responsibility, including Financial Manager – Distribution Operations and Manager – Corporate

Accounting and Budgeting. In 2003, I was appointed Controller – Delivery Business. In 2011, I was appointed Assistant Treasurer. I was appointed Vice President and Treasurer for Wisconsin Energy Corporation and its utility subsidiaries in February 2013. I was appointed Vice President and Treasurer for WEC when the company was formed in June 2015 following the acquisition of Integrys Energy Group.

Q. What are your responsibilities in your current position?

A. I have overall responsibility for WEC's strategic and long-range financial planning functions, forecasting and managing the utility subsidiaries' revenue requirements, and overseeing the treasury, accounting, tax, insurance, and risk management functions.

Q**.** **Have you testified in regulatory proceedings before?**

A. Yes. I provided testimony before this Commission in Docket 9400-YO-100.

II. Purpose of testimony and overview

Q. What is the purpose of your direct testimony in this proceeding?

A. The purpose of my testimony is to provide an overview of Applicants' test year 2020 rate filing and to introduce the witnesses sponsoring direct testimony in this proceeding. This is the first rate increase Applicants have sought since 2015, and it is largely driven by recovery of an escrow balance and a revenue shortfall created by prior Commission action, and by the increasing cost of the Point Beach Power Purchase Agreement ("PPA"), also approved by the Commission. As I will discuss below, by aggressively controlling costs and applying tax savings, we are able to mitigate the rate increases that would otherwise be needed to support our continued investment in capital projects to maintain system reliability and transition to a less carbon-intensive energy future.

Q. Who are the other witnesses presenting testimony in support of this application?

A. The other witnesses filing direct testimony in support of this application are:

1. Mr. Joe Zgonc, who presents Applicants' forecasted income statements and balance sheets along with the test year revenue requirement for each utility. Mr. Zgonc also discusses Applicants' capital investments since their last rate case and requested changes to their capital structure.
2. Mr. Joel Gaughan, who supports the 2020 electric sales forecast for Wisconsin Electric.
3. Ms. Kim Keller, who presents Wisconsin Electric's fuel cost plan for 2020.
4. Mr. Jared Peccarelli, who supports the 2020 gas sales forecast for Wisconsin Gas and Wisconsin Electric – Gas Operations.
5. Ms. Ann Bulkley of Concentric Energy Advisors, who discusses Applicants' proposed returns on equity and capital structures.
6. Mr. Todd Shipman of Concentric Energy Advisors, who explains how credit rating agencies assign credit ratings to investor-owned utilities, including the importance of regulatory risk in that analysis.
7. Mr. Daniel Krueger, who discusses the operational history of the Pleasant Prairie Power Plant ("Pleasant Prairie") and the Presque Isle Power Plant ("PIPP") and the prudent decisions to retire those plants.
8. Mr. Richard Stasik, who presents the savings customers will realize as a result of retiring Pleasant Prairie and PIPP and Wisconsin Electric's proposed accounting treatment of those retired assets.

9. Mr. Jim Schubilske, who presents Wisconsin Electric's proposed ratemaking treatment of the deferred escrow balances for System Support Resource ("SSR") payments and transmission costs.

10. Mr. David Hughes, who discusses the effects on rates of the federal corporate tax reform bill passed in early 2018.

11. Ms. Mary Wolter, who discusses rate recovery of the costs of the service agreements between Bluewater Natural Gas Storage LLC and Wisconsin Gas and Wisconsin Electric – Gas Operations that were previously approved by the Commission.

Applicants are also filing the analysis of real-time market pricing tariffs required by Order Point 18 of the Commission's decision in docket 5-UR-108. On or before May 1, 2019, Applicants will file testimony explaining cost of service and rate design. Among the points of discussion for rate design will be a proposal for a pilot tariff related to electric vehicle charging and possibly renewing Wisconsin Electric's proposal for a demand charge.

III. Explanation of Applicants' Rate Request

Q. Please describe the changes Wisconsin Electric seeks in its electric rates.

A. Wisconsin Electric has kept its base rates flat since its last rate case review for test year 2015. Wisconsin Electric has done so by managing day-to-day costs, applying savings generated by Wisconsin Energy Corporation's 2015 acquisition of Integrys Energy Group, and taking advantage of opportunities provided by federal tax law reform. Absent three drivers outside of its control, Wisconsin Electric would have been able to keep its electric base rates frozen through 2021. However, at current rates, Wisconsin Electric's

electric operations will have a significant revenue deficiency in test year 2020. These three drivers account for the entire 2020 revenue deficiency for costs Wisconsin Electric incurs to provide service to customers.

On a Wisconsin jurisdictional basis, Wisconsin Electric's electric revenue requirement in test year 2020 will be approximately $223 million (or 7.8%, including fuel) higher than its currently-authorized revenue requirement. As I will discuss below, in the interest of mitigating the impact of this increase on our customers, we are proposing to apply bill credits from unprotected tax benefits, which will reduce the 2020 increase by approximately half. Approval of this proposal, along with some additional anticipated adjustments, allows us to target an effective revenue requirement increase of 2.9% in both 2020 (including fuel) and 2021 (excluding fuel), as compared to current rates.

Q. What is the first of the primary drivers for Wisconsin Electric's electric revenue requirement increase?

A. As Mr. Schubilske discusses in his testimony, the Commission's Order in Docket 5-UR-106 capped Wisconsin Electric's recovery of transmission costs paid to American Transmission Company ("ATC") at approximately $250 million per year, their level in 2010. Over the intervening years, this decision created a $204 million regulatory asset for transmission costs, some of which dated back to ATC's formation. With the Commission's approval in Docket 5-UR-108, Wisconsin Electric has applied certain accelerated tax benefits to decrease this balance, and it will be completely eliminated by the end of 2019. Going forward, Wisconsin Electric proposes to recover in rates a forecast of its actual transmission costs ($332 million in 2020), as do all of the other electric utilities in Wisconsin. This change alone represents an $82 million increase in

Wisconsin Electric's 2020 revenue requirement relative to its 2015 revenue requirement.

Q. What is the second primary driver?

A. In Wisconsin Electric's test year 2015 rate case, the Commission approved the creation of a regulatory asset for MISO-ordered SSR payments that the Commission expected Wisconsin Electric would receive starting in 2015 for its continued operation of PIPP in the Upper Peninsula of Michigan. The Commission expected these payments would give Wisconsin Electric approximately $91 million in annual revenue towards its authorized Wisconsin electric retail revenue requirement. The Commission applied this entire amount to largely eliminate Wisconsin Electric's 2015 revenue deficiency after Staff's audit. Further, the Commission ordered Wisconsin Electric to escrow the difference between the estimate and the actual amount of revenue the company received for future refund to (or recovery from) customers. However, except for one month in 2015, these revenues were never received because the SSR Agreement was terminated in February 2015. Since then, Wisconsin Electric has operated with a built-in structural revenue deficiency of $91 million per year in its authorized rates.

These expected-but-not-received payments were partially offset by revenues received from iron ore mines in the Upper Peninsula of Michigan under a special contract. These revenues, referred to as the "mines margin," are not reflected in Wisconsin Electric's current rates. After the mines returned to Wisconsin Electric service as full-requirements customers in early 2015, the company requested—and the Commission authorized—escrowing the "mines margin" to offset the SSR escrow balance. (The mines margin will not be an issue in this case because, as the Commission has acknowledged, the mines will be transferred to Upper Michigan Energy Resources

Company after new generation facilities in the Upper Peninsula achieve commercial operation.)

In its Docket 5-UR-108 order, the Commission approved Wisconsin Electric's proposal to apply accelerated tax benefits to freeze the continued growth of the SSR escrow balance, indicating that it would address recovery of the regulatory asset in Wisconsin Electric's test year 2020 rate case. The Commission also reduced the carrying cost on the balance to the company's authorized long-term debt rate.

As of December 31, 2019, the balance of the SSR escrow is expected to be $186 million. In order to finally address these costs of service due and owing the company, Wisconsin Electric proposes to recover the escrow balance over six years. This recovery, plus the removal of the phantom SSR revenue from the company's electric revenue requirement, results in a $122 million revenue requirement increase for 2020 as compared to 2015.

Q. Why is Wisconsin Electric seeking recovery of its transmission and SSR costs in this proceeding?

A. In 2017, the Commission approved measures to freeze the growth of the transmission and SSR escrows. In this proceeding, Wisconsin Electric seeks Commission approval to begin to amortize the SSR regulatory asset and address the company's revenue deficiency created by previous decisions to cap recovery of its transmission costs. In other words, with respect to the SSR escrow, Wisconsin Electric will begin to recover amounts in its 2020 retail rates that it has already incurred, with the Commission's approval, to provide safe, reliable, and affordable electric service.

It is also important to note that during the five-year period in which Wisconsin Electric kept its base rates flat, its cost of service has not stopped growing. Over this period, Wisconsin Electric has continued to make necessary capital investments but has been able to largely offset these rising costs by achieving synergy savings from Wisconsin Energy Corporation's acquisition of Integrys Energy Group and by retiring fossil generating facilities, resulting in further savings for customers.

Q. What is the third primary driver of Wisconsin Electric's electric revenue requirement increase for test year 2020?

A. The third driver is the annual price increases included in the Point Beach PPA, which was approved by the Commission in September 2007, in connection with Wisconsin Electric's sale of the Point Beach nuclear plant to FPL Energy Point Beach, LLC ("FPL"). As a result of that transaction, Wisconsin Electric received nearly $1 billion from FPL, which was used to reduce customers' rates. The Commission also approved the PPA under which Wisconsin Electric agreed to purchase the output of the plant for the life of its Nuclear Regulatory Commission license. The PPA contains annual price increases, which are reflected in Wisconsin Electric's fuel costs. In test year 2020, the increased costs associated with the Point Beach PPA alone add approximately $27 million to Wisconsin Electric's revenue requirement.

Q. What are some of the other challenges that Wisconsin Electric would be able to manage without an electric rate increase?

A. While Mr. Zgonc also describes all of the significant upward and downward pressures on our revenue requirement, the following items have put upward pressure on Wisconsin Electric's electric revenue requirement:

- Over the last five years, Wisconsin Electric has invested approximately $750 million of capital to update and maintain one of the most reliable electric generation and delivery systems in the country. None of this investment is reflected in its current rates. Incorporating a return of and on these investments into Wisconsin Electric's rates increases its annual revenue requirement by $146 million.
- Over the same period Wisconsin Electric's customers have used energy more efficiently, which has been a key reason demand for electricity in Wisconsin Electric's service territory has fallen by 0.7% compared to the sales forecast on which its current rates are based. This reduced demand has led to a net $49 million shortfall in Wisconsin Electric's annual revenue requirement after factoring in the relevant fuel savings.

Q. What steps has Wisconsin Electric taken to reduce upward pressure on its electric rates?

A. As it has done in the past, Wisconsin Electric continues to prudently manage its costs. We continue to challenge ourselves to find ways to provide more efficient and cost-effective service to our customers. For example:

- Since 2015, Wisconsin Electric has reduced its annual O&M expense by $125 million, or 4.2%.
- Since 2015, Wisconsin Electric's working capital requirements have decreased as coal plants have been retired, resulting in a decrease in revenue requirement of $28 million, or 0.9%.

- The 2017 federal tax reform has decreased Wisconsin Electric's annual tax expense by $63 million and created an additional $111 million in unprotected deferred income tax benefits that can be applied as a bill credit to reduce the effect of necessary rate increases.

Q. How is Wisconsin Electric proposing to mitigate the effect of its forecasted electric revenue deficiency for 2020?

A. As I mentioned above, Wisconsin Electric's total electric revenue requirement deficiency for test year 2020 is $223 million. In the interest of mitigating the impact of this increase on customers, we are proposing that the Commission authorize a bill credit of $94 million of unprotected tax benefits for the benefit of customers in 2020, which when paired with additional anticipated adjustments would result in an effective revenue requirement increase of 2.9%, including fuel. When these unprotected tax benefits roll off in 2021, we are proposing that the Commission authorize Wisconsin Electric to apply an additional $17 million in unprotected tax benefits through bill credits, resulting in an effective revenue requirement increase in that year of an additional 2.9% (without fuel).

Q. Applicants currently have a revenue sharing mechanism in place as a result of prior Commission decisions, beginning with the Commission's Order approving Wisconsin Energy Corporation's acquisition of Integrys Energy Group. What are Applicants proposing with respect to that mechanism?

A. Applicants are proposing to maintain revenue sharing mechanisms for an additional two years. Applicants propose to amend the mechanisms slightly to mirror the approach the Commission approved for Wisconsin Power & Light in Docket 6680-UR-121. Thus, in particular, Applicants would retain all earnings between 0 and 25 basis points above their

authorized rates of return on equity; return to customers 50 percent of the next 50 basis points of return above their authorized rates of return; and return 100 percent of any earnings beyond that point. The proposed revenue sharing mechanism is further discussed in Mr. Zgonc's testimony.

Q. Please describe Wisconsin Electric's electric fuel cost filing for test year 2020.

A. In addition to the revenue requirement adjustments I just discussed, Wisconsin Electric is filing a fuel cost plan, as required by the Commission's fuel rules, that indicates a net increase of $13.5 million compared to the company's approved 2019 fuel costs. Wisconsin Electric's fuel costs would have decreased in 2020 except for the approximately $27 million fuel cost increase under Wisconsin Electric's Point Beach PPA. As always, these fuel cost estimates are subject to change during the course of this proceeding and final fuel costs will be fixed shortly after an order is issued in the case.

Q. Please explain the changes Wisconsin Electric seeks in gas rates.

A. Wisconsin Electric also seeks a gas rate increase to address a revenue deficiency of $20.4 million (or 5.5%). This revenue deficiency is driven principally by the company adding nearly $300 million in capital investment since its last rate case.

This driver is countered by (1) falling natural gas commodity costs resulting in a net reduction of $13 million in revenue requirements along with (2) O&M savings ($4 million) and (3) benefits of tax reform ($9 million). Mr. Zgonc also discusses these drivers. With anticipated adjustments, Wisconsin Electric is targeting a gas rate increase of $14.7 million, or 3.9%.

Q. Please explain the changes that Wisconsin Electric seeks in steam rates.

A Wisconsin Electric's steam utility projects a revenue deficiency of $1.5 million (or 6.8%)

in 2020. Mr. Zgonc discusses the drivers for this deficiency. With anticipated adjustments, Wisconsin Electric's steam utility is targeting a rate increase of $1 million, or 4.5%.

Q. Please explain the changes that Wisconsin Gas seeks in gas rates.

Wisconsin Gas projects a revenue deficiency of $14.8 million (or 2.4%) in 2020. This revenue deficiency is driven principally by two items. First, the company has invested over $500 million in capital improvements since its last rate case. Second, Wisconsin Gas projects an increase in O&M costs of $7 million.

These drivers are countered by falling natural gas commodity costs and $16 million of income statement benefits from tax reform. Mr. Zgonc also discusses these drivers. With anticipated adjustments, Wisconsin Gas is targeting a rate increase of $11 million, or 1.8%.

IV. Conclusion

Q Do you have anything further to say regarding Applicants' request in this proceeding?

A. Yes. Our highest priority is to continue providing safe and reliable service to our customers in an environmentally responsible way. We do not take rate increases lightly. Our commitment to keeping rates affordable for our customers is evidenced by the fact that we have managed to avoid rate increases for five full years despite constant investment in improving system reliability. We will continue to manage our business in a responsible, cost effective manner that retains the high level of service our customers expect.

Q. Does this conclude your direct testimony?

A. Yes.